Cohort Default Rate Calculation

What is an FFEL Program and Direct Loan Program cohort default rate?

An FFEL Program and Direct Loan Program cohort default rate is the percentage of a school's student borrowers who enter repayment on certain Federal Family Education Loan (FFEL) Program and/or William D. Ford Federal Direct Loan (Direct Loan) Program loans during a particular fiscal year and default within the fiscal year in which the loans entered repayment or within the next fiscal year (FY)[1]. The cohort default rate may be an FFEL Program cohort default rate, a Direct Loan Program cohort rate, or a Dual-Program cohort rate depending on the type or types of student loans that are considered in calculating the rate.

Q. What is a fiscal year?

A. A federal fiscal year begins on October 1 of a calendar year and ends on September 30 of the following calendar year. Each federal fiscal year refers to the calendar year in which it ends.

Note

A school does not select whether it has an FFEL Program cohort default rate, a Direct Loan Program cohort rate, or a Dual-Program cohort rate. The type of rate is determined on the basis of the types of loans made to students attending the school who enter repayment in a given fiscal year.

Q. How are cohort default rates calculated if a school has branch campuses or additional locations?

A. The data from each campus and/or location is combined to calculate a single cohort default rate for the school. The main campus of the school is notified of the cohort default rate.

An FFEL Program cohort default rate[2] is the cohort default rate for schools whose students have **only** FFEL Program loans entering repayment during a particular fiscal year. It is the percentage of a school's borrowers who enter repayment on certain FFEL Program loans during a particular fiscal year and default within the fiscal year in which the loans entered repayment or within the next fiscal year.

A Direct Loan Program cohort rate[3] is the cohort rate for schools whose students have **only** Direct Loan Program loans entering repayment during a particular fiscal year. It is the percentage of a school's borrowers who enter repayment on certain Direct Loan Program loans during a particular fiscal year and default or meet ***other specified conditions*** within the fiscal year in which the loans entered repayment or within the next fiscal year.

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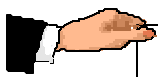
[1] For schools with 29 or fewer borrowers entering repayment during a fiscal year, the data is averaged over a three-year period. Please refer to page 16 for additional information on the averaging process.
[2] 34 CFR Section 668.17(d)
[3] 34 CFR Section 668.17(e)

A Dual-Program cohort rate[4] is the cohort rate for schools whose students have **both** FFEL Program and Direct Loan Program loans entering repayment during a particular fiscal year. It is the percentage of a school's borrowers who enter repayment on certain FFEL Program and Direct Loan Program loans during a particular fiscal year and default or meet ***other specified conditions*** within the fiscal year in which the loans entered repayment or within the next fiscal year.



Note

The U.S. Department of Education's (Department) regulations use the term "weighted average cohort rate" for cohort default rates for schools with student borrowers who have both FFEL Program and Direct Loan Program loans entering repayment during a fiscal year. This Guide uses the term "Dual-Program cohort rate" to describe the same rate and calculation. In addition, this Guide uses the term "cohort default rate" to refer to a school's FFEL Program cohort default rate, Direct Loan Program cohort rate, or Dual-Program cohort rate, unless otherwise specified.

Q. What is a cohort period?

A. A cohort period is the two-year period associated with a cohort default rate calculation.
For example, the cohort period for the FY 1998 cohort default rate calculation is from October 1, 1997 through September 30, 1999.

***Other specified conditions*:** For non-degree granting proprietary schools only, borrowers who have received Direct Loan Program loans are considered to be in default for the purposes of calculating a school's cohort default rate if, for a specified period of time during the cohort period in question, the borrowers are in repayment under the income contingent repayment (ICR) plan with scheduled payments that are less than 15 dollars per month and less than the interest accruing on the loan. The period of time that determines whether a borrower will be included as a defaulted borrower due to the borrower's ICR plan is based on which cohort default rate calculation the borrower is included. If the borrower is included in a cohort default rate calculation **prior** to FY 1998, the period of time is 270 days. If the borrower is included in the **FY 1998 or a later** cohort default rate calculation, the period of time is 360 days.[5]

[4] 34 CFR Section 668.17(f)
[5] 64 Fed. Reg. 58974, 58979 (November 1, 1999) (Preamble to Final Rule)

Which types of loans are included in the cohort default rate calculation?

The **FFEL Program loans included** in the cohort default rate calculation are:

- Subsidized Federal Stafford loans (FFEL Stafford loans);
- Unsubsidized Federal Stafford loans (FFEL Stafford loans);

  AND
- Federal Supplemental Loans for Students (Federal SLS loans).

Note

Federal SLS loans have not been issued since July 1, 1994. However, it is possible for a Federal SLS loan to be included in a recent cohort default rate calculation if the borrower has recently entered into repayment on the Federal SLS loan.

The **Direct Loan Program loans included** in the cohort default rate calculation are:

- Federal Direct Subsidized Stafford/Ford loans (Direct Loan Program loans);

  AND
- Federal Direct Unsubsidized Stafford/Ford loans (Direct Loan Program loans).

The following **loans are NOT included** in the cohort default rate calculation:

- PLUS loans;
- Federal Direct PLUS loans;
- Federal Insured Student loans;

  AND
- Federal Perkins Program loans.

Note

Federal Consolidation loans and Federal Direct Consolidation loans are not counted directly in the cohort default rate calculation. However, the status of a consolidation loan may affect how the loan(s) that was paid off by the consolidation loan is included in the cohort default rate calculation. Please refer to page 24 for more information on how consolidation loans may affect the cohort default rate calculation.

When are cohort default rates released?

The Department releases cohort default rates twice a year. Generally, the Department releases **draft** cohort default rates before the end of March of each year. After schools receive their draft cohort default rate data and are provided an opportunity to identify and correct any inaccuracies, the Department releases the **official** cohort default rates. Official cohort default rates are released to schools and the public approximately six months after the release of the draft cohort default rates BUT must be released no later than September 30th of each year.[6]

Note

Please note that the National Student Loan Data System (NSLDS), which contains the data used to calculate cohort default rates, is regularly updated. Therefore, a school's **draft** data may differ from its **official** data, even if a school does not challenge its draft cohort default rate data.

[6] HEA Section 435(m)(4)(D)

Who receives cohort default rates?

The **draft** cohort default rates are provided only to schools and are NOT released to the public. The draft cohort default rates are released to all Title IV eligible schools that the Department's records indicate:

- were participating in the FFEL Program and/or Direct Loan Program on the first day of the fiscal year on which the cohort default rate is based and may or may not have student borrowers who entered into repayment on one or more of the relevant types of loans during the fiscal year on which the cohort default rate is based;

  OR

- have at one time participated in either loan program and have student borrowers who entered into repayment on one or more of the relevant types of FFEL Program and/or Direct Loan Program loans during the fiscal year on which the cohort default rate is based.

When the Department provides a school with a draft cohort default rate, the school will also receive a copy of the most recent *Draft Cohort Default Rate Guide* and the draft loan record detail report listing all of the student borrowers contained in the school's draft cohort default rate calculation.

The **official** cohort default rates are provided to schools and are released to the public. The official cohort default rates are provided to all schools that:

- are currently eligible to participate in any of the Title IV Student Financial Assistance Programs and were participating in the FFEL Program and/or Direct Loan Program on the first day of the fiscal year for which the cohort default rate is based and may or may not have student borrowers who entered into repayment on one or more of the relevant types of loans during the fiscal year on which the cohort default rate is based;

  OR

- are currently eligible to participate in any of the Title IV Student Financial Assistance Programs and have student borrowers who entered into repayment on one or more of the relevant types of FFEL Program and/or Direct Loan Program loans during the fiscal year on which the cohort default rate is based.

When the Department provides a school with an official cohort default rate, the school will also receive a copy of the most recent *Cohort Default Rate Guide*. In addition, if the school's official cohort default rate is ten percent or greater, an official loan record detail report listing all of the student borrowers contained in the school's official cohort default rate calculation will be provided.

Note

The Department is currently working to revise the entire layout of the next version of this Guide to make the Guide a more user-friendly document. With the release of the FY 1999 official cohort default rates, it is the Department's intent to release a *Cohort Default Rate Guide* that will combine the draft and official *Cohort Default Rate Guide* information. With the release of subsequent cohort default rates, the Department intends to provide only pages that address changes/additions to the *Cohort Default Rate Guide*.

The public can request a listing of all of the official cohort default rates in the form of a press package. The press package also contains a listing of those schools that are subject to sanctions as a result of official cohort default rates. For a copy of the most recent press package please call (202) 708-9396 or visit the Department's website at http://www.ifap.ed.gov.

Why are cohort default rates important?

The **draft** cohort default rates are important because the data used to calculate the draft cohort default rate forms the basis of a school's official cohort default rate. Although there are no sanctions or consequences associated with a **draft** cohort default rate, it is important to review the data used to calculate the draft cohort default rate to ensure the accuracy of the data. **A school that fails to challenge the accuracy of its draft cohort default rate data through a draft data challenge may be precluded from challenging the accuracy of the data used in calculating its official cohort default rate.** Therefore, it is critical that all schools review their draft cohort default rate data.

Q. What is a draft data challenge?

A. A draft data challenge is the process used by a school to correct cohort default rate data before the official cohort default rates are calculated.

Please refer to the "Draft Data Challenge" section beginning on page 73 for additional information on draft data challenges.

Please refer to the “Draft Data Challenge” section beginning on page 73 for more information on challenging a school’s draft cohort default rate data.

In addition, because in certain circumstances a school may be able to avoid the consequences associated with its official cohort default rates by submitting a successful participation rate index challenge based on its cohort default rate, the school should review its enrollment data in relation to its cohort default rate to determine if it qualifies to submit a participation rate index challenge.

Please refer to the “Participation Rate Index Challenge” section beginning on page 99 for more information on submitting a participation rate index challenge.

The **official** cohort default rates are important because they may affect a school’s eligibility to participate in certain Title IV Student Financial Assistance Programs and because the Department may take administrative actions against a school on the basis of its official cohort default rate(s). In addition, official cohort default rates below certain thresholds may qualify a school for certain benefits associated with the disbursement of loan program funds.

The revised cohort default rate regulations published by the Department in the fall of 2000 will not go into effect until July 1, 2001. Therefore, the changes to the cohort default rate process noted in those regulations do not apply to the FY 1999 **draft** cohort default rates and/or the FY 1999 draft challenge processes. The first cohort default rates affected by the changes to the cohort default rate regulations will be the FY 1999 **official** cohort default rates.

A copy of the final rule outlining the changes to the cohort default rate regulations can be obtained at http://www.ifap.ed.gov. More information on the consequences associated with official cohort default rates will be provided in the *Cohort Default Rate Guide* that will be sent with a school’s FY 1999 official cohort default rates.

Q. What is a participation rate index challenge?

A. A participation rate index challenge is a challenge submitted by a school after the release of the draft cohort default rates that demonstrates that the school has a relatively low level of borrower participation in the loan programs when compared to the school’s cohort default rate.

Please refer to the “Participation Rate Index Challenge” section beginning on page 99 for additional information on participation rate index challenges.

What are the time frames of a cohort default rate?

The time frames for a cohort default rate are based on federal fiscal years. Federal fiscal years begin on October 1 of a calendar year and end on September 30 of the following calendar year.[7]

Except for schools with 29 or fewer borrowers entering repayment, the cohort default rate is based on the number of borrowers who **entered repayment in a single fiscal year** (the denominator of the cohort default rate calculation), and of those borrowers, the number of borrowers who **defaulted or met other specified conditions before the end of the next fiscal year** (the numerator of the cohort default rate calculation).[8] The cohort default rate for FY 1999 is based on the number of borrowers who entered repayment in **FY 1999,** and of those borrowers, the number who defaulted or met other specified conditions in **FY 1999** or **FY 2000**. Therefore, the borrowers who entered repayment from October 1, 1998, through September 30, 1999, are included in the denominator of the FY 1999 cohort default rate calculation. Of those borrowers in the denominator of the cohort default rate calculation, the borrowers who defaulted or met other specified conditions from October 1, 1998, through September 30, 2000, are included in the numerator of the FY 1999 cohort default rate calculation.

Please refer to the chart on the next page for a listing of the time frames associated with seven relevant cohort default rate calculations.

[7] 34 CFR Section 668.17(d)(2)
[8] 34 CFR Section 668.17(d), (e), and (f)

Cohort Default Rate Time Frames		
Fiscal Year	**Borrowers Included in the Cohort Default Rate Calculation[9]**	**Period of Time**
FY 1995	Borrowers who entered repayment on their loans in FY 1995 and defaulted in FY 1995 or FY 1996 Borrowers who entered repayment on their loans in FY 1995	10/1/94 to 9/30/96 10/1/94 to 9/30/95
FY 1996	Borrowers who entered repayment on their loans in FY 1996 and defaulted in FY 1996 or FY 1997 Borrowers who entered repayment on their loans in FY 1996	10/1/95 to 9/30/97 10/1/95 to 9/30/96
FY 1997	Borrowers who entered repayment on their loans in FY 1997 and defaulted in FY 1997 or FY 1998 Borrowers who entered repayment on their loans in FY 1997	10/1/96 to 9/30/98 10/1/96 to 9/30/97
FY 1998	Borrowers who entered repayment on their loans in FY 1998 and defaulted in FY 1998 or FY 1999 Borrowers who entered repayment on their loans in FY 1998	10/1/97 to 9/30/99 10/1/97 to 9/30/98
FY 1999	Borrowers who entered repayment on their loans in FY 1999 and defaulted in FY 1999 or FY 2000 Borrowers who entered repayment on their loans in FY 1999	10/1/98 to 9/30/00 10/1/98 to 9/30/99
FY 2000	Borrowers who entered repayment on their loans in FY 2000 and defaulted in FY 2000 or FY 2001 Borrowers who entered repayment on their loans in FY 2000	10/1/99 to 9/30/01 10/1/99 to 9/30/00
FY 2001	Borrowers who entered repayment on their loans in FY 2001 and defaulted in FY 2001 or FY 2002 Borrowers who entered repayment on their loans in FY 2001	10/1/00 to 9/30/02 10/1/00 to 9/30/01

[9] For non-degree granting proprietary schools only, borrowers who have received Direct Loan Program loans are considered to be in default for purposes of calculating a school's cohort default rate if, for a specified period of time within the cohort period in question, the students are in repayment under the income contingent repayment (ICR) plan with scheduled payments that are less than 15 dollars per month and less than the interest accruing on the loan. Please refer to page 6 for an explanation regarding the period of time the borrower must be in an ICR plan prior to being treated as a defaulted borrower.

How does the Department calculate a school's cohort default rate?

The formula the Department uses for calculating a school's cohort default rate depends on the number of student borrowers from that school entering repayment in a particular fiscal year and the number of cohort default rates previously calculated for the school.

The three types of formulas used to calculate a school's cohort default rate are:

- **Non-Average Rate Calculation** — for a school with **30 or more borrowers** entering repayment during a fiscal year — (see page 15);
- **Average Rate Calculation** — for a school with **29 or fewer borrowers** entering repayment during a fiscal year that had a cohort default rate calculated for the two previous fiscal years — (see pages 16 and 17);

  AND
- **Unofficial Rate Calculation** — for a school with **29 or fewer borrowers** entering repayment during a fiscal year that did not have a cohort default rate calculated for either or both of the two previous fiscal years — (see pages 18 and 19).

The formulas and sample calculations are shown on the next five pages.

Non-Average Rate Calculation:

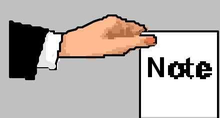
For a school with **30 or more borrowers** entering repayment during FY 1999, a non-average rate is calculated.[10] The FY 1999 **non-average cohort default rate** is calculated as follows:

100 X

the number of **borrowers** who entered repayment in FY 1999 and defaulted or met ***other specified conditions*** in FY 1999 or FY 2000 (Numerator)

―――――――――――――――

the number of **borrowers** who entered repayment in FY 1999 (Denominator)



***Other specified conditions*:** For non-degree granting proprietary schools only, borrowers who have received Direct Loan Program loans are considered to be in default for the purposes of calculating a school's cohort default rate if, for a specified period of time during the cohort period in question, the borrowers are in repayment under the income contingent repayment (ICR) plan with scheduled payments that are less than 15 dollars per month and less than the interest accruing on the loan. Please refer to page 6 for an explanation regarding the period of time the borrower must be in an ICR plan prior to being treated as a defaulted borrower.

Non-Average Rate Example:

School A, a degree-granting school, certified 117 loans for **90 borrowers** that entered repayment in FY 1999 (denominator). Of those borrowers, **8 borrowers** defaulted on a total of 16 loans in FY 1999 or FY 2000 (numerator). School A's cohort default rate is calculated by dividing 8 by 90 and multiplying the result by 100 to produce a **non-average cohort default rate** of 8.9 percent.

$$100 \times \frac{8}{90} = 8.9\%$$

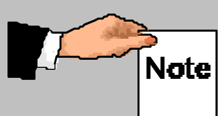
Q. Are cohort default rates based on the number of **loans** that enter repayment or the number of **borrowers** who enter repayment?

A. Cohort default rates are based on the number of unduplicated **borrowers** who enter repayment.

[10] 34 CFR Section 668.17(d), (e), and (f)

Average Rate Calculation: For a school with **29 or fewer borrowers** entering repayment during FY 1999 that had an official cohort default rate calculated for **FY 1997 and FY 1998,** the Department calculates an **average cohort default rate** for the **official** cohort default rates.[11] The FY 1999 average cohort default rate is calculated as follows:

$$100 \times \frac{\text{the total number of borrowers who entered repayment in FY 1997, FY 1998, and FY 1999 and defaulted or met other specified conditions before the end of the fiscal year immediately following the fiscal year in which the loan entered repayment (Numerator)}}{\text{the total number of borrowers who entered repayment in FY 1997, FY 1998, and FY 1999 (Denominator)}}$$



***Other specified conditions*:** For non-degree granting proprietary schools only, borrowers who have received Direct Loan Program loans are considered to be in default for the purposes of calculating a school's cohort default rate if, for a specified period of time during the cohort period in question, the borrowers are in repayment under the income contingent repayment (ICR) plan with scheduled payments that are less than 15 dollars per month and less than the interest accruing on the loan. Please refer to page 6 for an explanation regarding the period of time the borrower must be in an ICR plan prior to being treated as a defaulted borrower.

The Department does not calculate draft average cohort default rates. Draft cohort default rates are based on one year of data, even if the official cohort default rate will be an average rate. To calculate a school's FY 1999 average cohort default rate using the draft data, the school should refer to its official FY 1997 and FY 1998 notification letters (or if the school submitted an official adjustment and/or appeal, its appeal determination letters from the Department) to obtain the numerator and denominator for FY 1997 and FY 1998.

The following page provides an example of an average cohort default rate.

[11] 34 CFR Section 668.17(d), (e), and (f)

Average Rate Example:

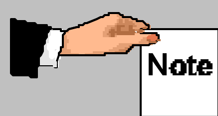
School B, a degree-granting school, certified loans for the following students: 50 borrowers who entered repayment in FY 1997, 44 borrowers who entered repayment in FY 1998, and 29 borrowers who entered repayment in FY 1999 (50+44+29=123, which represents the denominator). Of those 123 borrowers, 2 of the borrowers who entered repayment in FY 1997 defaulted in FY 1997 or FY 1998; 6 of the borrowers who entered repayment in FY 1998 defaulted in FY 1998 or FY 1999; and 4 of the borrowers who entered repayment in FY 1999 defaulted in FY 1999 or FY 2000 (2+6+4=12, which represents the numerator). School B's average cohort default rate is calculated by dividing 12 by 123 and multiplying the result by 100 to produce an **average cohort default rate** of 9.8 percent.

$$\boxed{100} \times \frac{\boxed{2} + \boxed{6} + \boxed{4} = \boxed{12}}{\underbrace{\boxed{50}}_{\text{FY 1997}} + \underbrace{\boxed{44}}_{\text{FY 1998}} + \underbrace{\boxed{29}}_{\text{FY 1999}} = \boxed{123}} = \boxed{9.8\%}$$

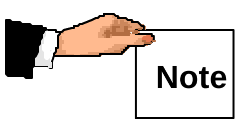
Unofficial Rate Calculation:

For a school with **29 or fewer borrowers** entering repayment during FY 1999 **that did not have a cohort default rate calculated for FY 1997 and/or FY 1998**, the Department calculates an **unofficial cohort default rate**. The FY 1999 unofficial cohort default rate is calculated as follows:

$$100 \times \frac{\text{the number of } \textbf{borrowers} \text{ who entered repayment in FY 1999 and defaulted or met } \textbf{\textit{other specified conditions}} \text{ in FY 1999 or FY 2000 (Numerator)}}{\text{the number of } \textbf{borrowers} \text{ who entered repayment in FY 1999 (Denominator)}}$$



***Other specified conditions*:** For non-degree granting proprietary schools only, borrowers who have received Direct Loan Program loans are considered to be in default for the purposes of calculating a school's cohort default rate if, for a specified period of time during the cohort period in question, the borrowers are in repayment under the income contingent repayment (ICR) plan with scheduled payments that are less than 15 dollars per month and less than the interest accruing on the loan. Please refer to page 6 for an explanation regarding the period of time the borrower must be in an ICR plan prior to being treated as a defaulted borrower.

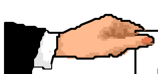


Draft cohort default rates are only based on one year of data, even if a school has 29 or fewer borrowers entering repayment.

The following page provides an example of an unofficial cohort default rate.

Unofficial Rate Example: School C, a degree-granting school that began participating in the FFEL Program on October 1, 1998 (i.e., the beginning of FY 1999), certified loans for 21 borrowers who entered repayment in FY 1999. Of those 21 borrowers, 2 of the borrowers who entered repayment in FY 1999 defaulted in FY 1999 or FY 2000. Because School C has 29 or fewer borrowers who entered repayment in FY 1999, a non-average rate calculation cannot be calculated for the school. However, because the school had not started participating in the FFEL Program on the first day of FY 1998 (i.e., October 1, 1997) and as a result did not have a cohort default rate calculated for FY 1998, School C does not have two previous rates with which to average its current year data. Therefore, School C's cohort default rate is calculated based on one year of data by dividing 2 by 21 and multiplying the result by 100 to produce an **unofficial cohort default rate** of 9.5 percent.

$$\boxed{100} \times \frac{\boxed{2}}{\boxed{21}} = \boxed{9.5\%}$$



Note

Since an unofficial cohort default rate does not meet the statutory definition of a cohort default rate, it cannot be used to determine sanctions or benefits when the official cohort default rates are released.

How does the Department determine which loans are placed in the <u>denominator</u> of the calculation?

Q. When will a borrower enter repayment if the borrower re-enrolls in an eligible school prior to the expiration of the borrower's grace period?

A. If a school provides timely notification that the borrower re-enrolled, the borrower will not enter repayment until the borrower has received six consecutive months of an uninterrupted grace period.

Loans are included in the denominator of the cohort default rate calculation based on when the loans entered repayment. Except for an average cohort default rate calculation, loans included in the denominator of the FY 1999 cohort default rate calculation are the relevant FFEL Program and Direct Loan Program loans that entered repayment during FY 1999 (i.e., from October 1, 1998 through September 30, 1999).

Different loan types enter repayment under different rules.

FFEL Program Stafford loans enter repayment on the day following six months of an uninterrupted grace period after a student drops below at least half-time enrollment PROVIDED that the school timely notified the lender and/or guaranty agency of the student's change in enrollment status. If the school does not timely notify the lender and/or guaranty agency of a student's change in enrollment status, the lender will use the best information available to determine the student's date entered repayment. This date will be used for purposes of calculating the school's cohort default rate.

Note If the loan was converted into repayment before March 1, 1996, the repayment date for FFEL Program Stafford loans may be date-specific (for example, 1/16/1996) or month-specific (for example, 2/1996). On or after March 1, 1996, the repayment date is date-specific.

Direct Loan Program loans enter repayment on the day following six months of an uninterrupted grace period after a student drops below at least half-time enrollment PROVIDED that the school timely notified the Direct Loan servicer of the student's change in enrollment status. If the school does not timely notify the Direct Loan servicer of a student's change in enrollment status, the servicer will use the best information available to determine the student's date entered repayment. This date will be used for purposes of calculating the school's cohort default rate.

Q. If a borrower requests a forbearance or deferment, will the student's date entered repayment change?

A. No, a forbearance or deferment will not alter the borrower's date entered repayment.

Note Unlike FFEL Program loans, the date entered repayment for Direct Loan Program loans has always been date-specific.

Federal SLS loans — if not reported in a cohort default rate prior to FY 1993, the following definitions apply.

- If a student has a Federal SLS loan and an FFEL Program Stafford loan that were both obtained in the same period of continuous enrollment, the date entered repayment for the Federal SLS loan is the same as the date entered repayment for the FFEL Program Stafford loan.

  OR

- In other instances, the date entered repayment for the Federal SLS loan is the day following the day a student is no longer enrolled on at least a half-time basis.

Under these guidelines for Federal SLS loans, which were implemented beginning with the FY 1993 cohort default rates, a loan that was reported as having entered repayment prior to FY 1993 might also meet the criteria to be included in FY 1993 or later. To prevent the possibility of double-counting loans, any Federal SLS loan that was reported in a cohort default rate prior to FY 1993 will not be reported again.

Note Please refer to the special circumstances affecting the cohort default rate calculation beginning on page 24.

How does the Department determine which loans are placed in the <u>numerator</u> of the calculation?

Loans must be included in the denominator of a cohort default rate calculation in order to be included in the numerator of the cohort default rate calculation.

For FFEL Program loans, only defaulted loans are included in the numerator of the calculation. For **cohort default rate purposes**, a loan is considered to be in default only if the guaranty agency has paid a default claim on the loan to the lender.[12] The date the guaranty agency reimburses the lender for the defaulted loan (the claim paid date or CPD) is used to determine if the loan will be placed in the numerator of the calculation. If the claim paid date falls within the same fiscal year in which the loan entered repayment or the next fiscal year, the loan is included in both the denominator and numerator of the cohort rate calculation.

Note

Effective October 7, 1998, the 1998 Amendments to the Higher Education Act of 1965 (HEA), as amended, changed the definition of default for FFEL Program loans from 180 days of delinquency to 270 days of delinquency. Therefore, if a borrower's first day of delinquency on a loan occurred before October 7, 1998, the borrower's default will be based on 180 days of delinquency. However, if a borrower's first day of delinquency on a loan occurred on or after October 7, 1998, the borrower's default will be based on 270 days of delinquency. When determining a borrower's first day of delinquency, it is important to note that a borrower's first day of delinquency can change based on late payments made by a borrower (i.e., rolling delinquencies).

Example: Harry's first day of delinquency was September 15, 1998. If Harry makes two full monthly payments in October 1998, and subsequently becomes delinquent, Harry's first day of delinquency would be after October 7, 1998 and Harry would only default if he remained delinquent for 270 days.

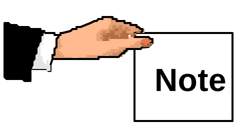
Regardless of the number of days of delinquency used to determine a borrower's default date, if the **date the claim is paid falls within the same fiscal year in which the loan entered repayment or the next fiscal year**, the loan will be included in **both the denominator and the numerator** of the cohort default rate calculation.

[12] 34 CFR Section 668.17(d)(1)(i)(C)

For Direct Loan Program loans, loans are included in the numerator of the cohort default rate calculation when a student defaults. As a result of the change in definition of default, the definition of default **for cohort default rate purposes** for Direct Loan Program loans was changed from 270 days of delinquency to 360 days of delinquency. This change was effective October 7, 1998. Therefore, if a borrower defaults on a Direct Loan Program loan based on a first day of delinquency that occurred before October 7, 1998, the default will be based on 270 days of delinquency. If a borrower defaults on a Direct Loan Program loan based on a first day of delinquency that occurred on or after October 7, 1998, the default will be based on 360 days of delinquency. As with FFEL Program loans, it is important to note that the first day of delinquency may change based on late payments made by borrowers. The change in the borrower's first day of delinquency may affect whether or not the borrower is considered in default after 270 days or 360 days of delinquency.

In either circumstance, if the borrower's **default date** falls within the **same fiscal year in which the loan entered repayment or the next fiscal year**, the loan will be included in **both the denominator and the numerator** of the cohort default rate calculation.

In addition, for **non-degree granting proprietary schools** only, borrowers who have received Direct Loan Program loans are considered to be in default for purposes of calculating a school's cohort default rate if, for a specified period of time during the cohort period in question, the borrowers are in repayment under the income contingent repayment (ICR) plan with scheduled payments that are less than 15 dollars per month and less than the interest accruing on the loan. The period of time that determines whether a borrower will be included as a defaulted borrower due to the borrower's ICR plan is based on the cohort default rate calculation in which the borrower is included. If the borrower is included in a cohort default rate calculation **prior** to FY 1998, the period of time is 270 days. If the borrower is included in the **FY 1998 or later** cohort default rate calculation, the period of time is 360 days.[13]



Please refer to the special circumstances affecting the cohort default rate calculation beginning on page 24.

Q. Why would a Direct Loan Program loan have a loan status code of DU (i.e. defaulted) BUT not be considered in default for cohort default rate purposes?

A. For the purposes of borrower eligibility, a Direct Loan Program loan is considered in default after 270 days of delinquency. However, for cohort default rate purposes, a Direct Loan Program loan is not considered in default until after 360 days of delinquency. If the borrower reaches 271 days of delinquency within the cohort period in question, the loan will be assigned a DU loan status. If the borrower's 361st day of delinquency does not occur within the cohort period in question, the borrower will be reported with a loan status code of DU, but will not be considered a defaulted loan for cohort default rate purposes.

[13] 64 Fed. Reg. 58974, 58979 (November 1, 1999) (Preamble to Final Rule)

How do consolidation loans affect the <u>numerator</u> of the cohort default rate calculation?

A defaulted Federal Consolidation loan and/or Federal Direct Consolidation loan may cause a **non-defaulted** FFEL Program and/or Direct Loan Program loan to be included in the **numerator** of the cohort default rate calculation. This occurs if the Federal Consolidation loan and/or Federal Direct Consolidation loan, which was used to consolidate the FFEL Program and/or Direct Loan Program loan(s), defaults within the cohort period that is associated with the cohort default rate calculation in which the FFEL Program and/or Direct Loan Program loan is included.

Example: Elizabeth entered into repayment on an FFEL Program loan on January 3, 1999. Because Elizabeth entered into repayment on the FFEL Program loan on January 3, 1999, Elizabeth will be included in the denominator of the FY 1999 cohort default rate calculation. After entering into repayment on the FFEL Program loan, Elizabeth elects to consolidate the FFEL Program loan using a Federal Consolidation loan. Elizabeth fails to make payments on the Federal Consolidation loan, and the claim was paid on the Federal Consolidation loan on March 15, 2000.

Even though the FFEL Program loan did not default, the FFEL Program loan will be included in the numerator of the FY 1999 cohort default rate calculation because a claim was paid on the Federal Consolidation loan, which consolidated the FFEL Program loan, before the end of the FY 1999 cohort period, which is the cohort period in which Elizabeth's FFEL Program loan was included.

Are there any special circumstances that affect how a loan will be included in the cohort default rate calculation?

There are several special circumstances that will affect how a loan is included in the cohort default rate calculation. The table beginning on the next page addresses many of these circumstances but is not intended to be representative of all of the special circumstances.

Special Circumstances Affecting How Cohort Default Rates Are Calculated		
If…	**Then…**	**And…**
A borrower obtained **more than one loan** to attend a school and the loans entered repayment during the **same fiscal year**	The borrower should be included in the denominator of the cohort default rate calculation in the year in which the loans entered repayment. Cohort default rates are calculated for a school based on an unduplicated borrower count. Therefore, even if a borrower has more than one loan entering repayment in a single fiscal year for a given school, that borrower will only be counted once in the denominator of the school's cohort default rate calculation.	The borrower should be included in the numerator of the cohort default rate calculation if one or more of the loans defaulted or met other specified conditions within the fiscal year in which the loans entered repayment or within the next fiscal year. Even if more than one loan defaulted or met other specified conditions, the borrower would be counted only once in the numerator of the school's cohort default rate calculation.
A borrower obtained **more than one loan** to attend a school but the repayment dates for each of the loans fall into **different fiscal years**	The borrower should be included in the denominators of the cohort default rate calculations in the years in which the loans entered repayment. The same borrower can appear in two different cohort default rate calculations for a school if the borrower has two separate loans and the repayment dates for each of the loans fall into separate fiscal years. However, the same loan cannot be used in more than one cohort default rate calculation.	The borrower should be included in the numerator of the cohort default rate calculation if the loan defaulted or met other specified conditions within the fiscal year in which that loan entered repayment or within the next fiscal year.

Q. What is an underlying loan?
A. If a borrower consolidates his/her FFEL Program and/or Direct Loan Program loan(s), the FFEL Program and/or Direct Loan Program loan(s) that was consolidated is considered the underlying loan.

Special Circumstances Affecting How Cohort Default Rates Are Calculated

If…	Then…	And…
A borrower takes out loans at **more than one school**	The loans obtained for attendance at one school are included in the denominator of that school's cohort default rate calculation and the loans obtained for attendance at any other schools are included in the denominator of the other schools' cohort default rate calculations.	The loans obtained for attendance at one school are included in the numerator of that school's cohort default rate calculation and the loans obtained for attendance at the other schools are included in the numerator of the other schools' cohort default rate calculations, provided that the loans defaulted or met other specified conditions within the fiscal year that the loans entered repayment or within the next fiscal year.
A borrower **consolidated** one or more of his/her **non-defaulted loans**	The borrower should be included in the denominator(s) of the cohort default rate calculation(s) in which the **underlying** loan(s) entered repayment.	If the **consolidation** loan defaulted or met other specified conditions within the fiscal year in which the **underlying** loan(s) entered repayment or within the next fiscal year, then the borrower should be included in the numerator(s) of the cohort default rate calculation(s).

Special Circumstances Affecting How Cohort Default Rates Are Calculated		
If…	**Then…**	**And…**
A borrower **consolidated** one or more of his/her **defaulted loans**	The borrower should be included in the denominator(s) of the cohort default rate calculation(s) in which the **underlying** loan(s) entered repayment.	If the **underlying** loan(s) defaulted or met other specified conditions within the fiscal year in which the **underlying** loan(s) entered into repayment or within the next fiscal year, then the borrower should be included in the numerator(s) of the cohort default rate calculation(s).
The borrower's loan was **discharged due to death, bankruptcy, and/or disability PRIOR to the borrower entering repayment**	Because the borrower did not enter repayment, the borrower should be included in the denominator of the cohort default rate calculation based on the date the guaranty agency pays the claim based on the borrower's death, bankruptcy, and/or disability, or the date the Direct Loan servicer acknowledges the borrower's death, bankruptcy, and/or disability provided that the lender, guaranty agency, and/or Direct Loan servicer was timely notified of the borrower's death, bankruptcy, and/or disability.	The borrower should NOT be included in the numerator of the cohort default rate calculation because the loan did not default prior to the death, bankruptcy, and/or disability.

Special Circumstances Affecting How Cohort Default Rates Are Calculated		
If…	**Then…**	**And…**
The borrower's loan was **discharged due to death, bankruptcy, and/or disability AFTER the borrower entered repayment BUT prior to the borrower defaulting**	The borrower should be included in the denominator of the cohort default rate calculation based on the fiscal year in which the loan entered repayment.	PROVIDED that the lender, guaranty agency, and/or Direct Loan servicer was timely notified of the borrower's death, bankruptcy, and/or disability, the borrower should NOT be included in the numerator of the cohort default rate calculation because the loan did not default prior to the death, bankruptcy, and/or disability.
The borrower's loan was **discharged due to death, bankruptcy, and/or disability AFTER the borrower defaulted**[14]	The borrower should be included in the denominator of the cohort default rate calculation based on the fiscal year in which the loan entered repayment.	The borrower should be included in the numerator of the cohort default rate calculation if, prior to discharge, the loan defaulted or met other specified conditions within the fiscal year in which the loan entered repayment or the next fiscal year.
A **payment is made on a loan by the school, its owner, agent, or another entity or individual affiliated with the school** to avoid default by the borrower[15]	The borrower should be included in the denominator of the cohort default rate calculation based on the fiscal year in which the loan entered repayment.	The borrower should be included in the numerator of the cohort default rate calculation because the loan is treated as in default for cohort default rate purposes.

[14] 34 CFR Section 682.402 and 685.212
[15] HEA Section 435(m)(2)(B), 34 CFR Section 668.17(d)(1)(ii)(B), (e)(2)(ii), and (f)(2)(ii)

Special Circumstances Affecting How Cohort Default Rates Are Calculated		
If…	**Then…**	**And…**
A loan was **fully refunded** to the lender/Direct Loan servicer **(i.e., cancelled)** within 120 days of disbursement	The borrower should NOT be included in the denominator of the cohort default rate calculation because cancelled loans are not included in the cohort default rate calculation.	The borrower should NOT be included in the numerator of the cohort default rate calculation because cancelled loans are not included in the cohort default rate calculation.
A loan was **partially refunded** to the lender/Direct Loan servicer or was not fully refunded within 120 days of disbursement	The borrower should be included in the denominator of cohort default rate calculation based on the fiscal year in which the loan entered repayment.	The borrower should be included in the numerator of the cohort default rate calculation if the portion of the loan that was not refunded, defaults or meets other specified conditions within the fiscal year the loan entered repayment or the next fiscal year.
A borrower requested and was **granted a revised repayment schedule** that started **before the date** the borrower was originally **scheduled to enter repayment**	The borrower should be included in the denominator of the cohort default rate calculation based on the fiscal year in which that early repayment schedule start date falls.	The borrower should NOT be included in the numerator of the cohort default rate calculation if the loan did not default or meet other specified conditions.

Special Circumstances Affecting How Cohort Default Rates Are Calculated		
If…	**Then…**	**And…**
A borrower defaulted on a loan but it was **rehabilitated for cohort default rate purposes before the end of the cohort period associated with the fiscal year in which the borrower entered repayment**[16]	The borrower should be included in the denominator of the cohort default rate calculation based on the fiscal year in which the loan entered repayment.	The borrower should NOT be included in the numerator of the cohort default rate calculation because the loan is not considered in default.
A borrower **paid the loan in-full PRIOR to the date** the borrower was originally **scheduled to enter repayment**	The borrower should be included in the denominator of the cohort default rate calculation based on the fiscal year that the borrower paid the loan in-full. The paid in-full date becomes the new repayment date.	The borrower should NOT be included in the numerator of the cohort default rate calculation because the loan never defaulted or met other specified conditions.
A borrower **paid the loan in-full AFTER defaulting** on the loan and the borrower **did not successfully rehabilitate** his/her loan before the end of the cohort period associated with the fiscal year in which the borrower entered repayment	The borrower should be included in the denominator of the cohort default rate calculation based on the fiscal year in which the loan entered repayment.	The borrower should be included in the numerator of the cohort default rate calculation if the loan defaulted or met other specified conditions within the fiscal year in which the loan entered repayment or the next fiscal year.

[16] HEA Section 428 F(a), 435(m)(2)(C), and 34 CFR Section 682.405(a): An FFEL Program loan is rehabilitated if a borrower has made 12 consecutive, voluntary, on-time monthly payments before the end of the cohort period in which the student entered repayment and the loan is sold to a lender.
HEA Section 451(b)(2), 455(a)(1), and 34 CFR Section 685.211(e): A Direct Loan Program loan is rehabilitated if a borrower has made 12 consecutive on-time monthly payments before the end of the cohort period in which the borrower entered repayment.

Special Circumstances Affecting How Cohort Default Rates Are Calculated		
If…	**Then…**	**And…**
A **lender repurchased a loan** because the guaranty agency determined that the **lender failed to meet the insurance requirements**	The loan should NOT be included in the denominator of the cohort default rate calculation because uninsured loans are not included in the cohort default rate calculation.	The loan should NOT be included in the numerator of the cohort default rate calculation because uninsured loans are not included in the cohort default rate calculation.
A **lender repurchased a loan** because it **incorrectly submitted a claim on the loan** to the guaranty agency AND the lender **immediately** requested that the loan be returned AND did not subsequently submit another claim	The loan should be included in the denominator of the cohort default rate calculation based on the fiscal year in which the loan entered repayment.	The loan should NOT be included in the numerator of the cohort default rate calculation because the loan is not a defaulted loan.
A **lender repurchased a loan** because it **incorrectly submitted a claim on the loan** to the guaranty agency AND the lender **immediately** requested that the loan be returned AND then the lender **subsequently submits another claim** on the loan and that claim is paid within the cohort period associated with the fiscal year the loan entered repayment	The loan should be included in the denominator of the cohort default rate calculation based on the fiscal year in which the loan entered repayment.	The loan should be included in the numerator of the cohort default rate calculation because a subsequent claim was submitted and paid within the cohort period associated with the fiscal year the loan entered repayment.

Special Circumstances Affecting How Cohort Default Rates Are Calculated		
If…	**Then…**	**And…**
A **lender repurchased a loan on which a claim had been paid** because the borrower established **a new payment plan** and is making payments, OR the lender/servicer simply requests the repurchase **(i.e., a courtesy repurchase)** AND the loan does not meet the rehabilitation criteria discussed on page 30.	The loan should be included in the denominator of the cohort default rate calculation based on the fiscal year in which the loan entered repayment.	Since the loan is considered a defaulted loan for cohort default rate purposes, the loan should be included in the numerator of the cohort default rate calculation if the original claim was paid within the cohort period associated with the cohort default rate in which the loan entered repayment.

How does adding and subtracting loans from the cohort default rate calculation affect a school's cohort default rate?

The following chart describes the effect that the movement of a loan has on a cohort default rate calculation.

Results of Adding and Subtracting Loans

If…	And the Department…	Then the following change to the cohort default rate results:
the borrower has **no other loans** in the CDR calculation	Adds a **defaulted** loan	+B
	Adds a **non-defaulted** loan	+D
	Subtracts a **defaulted loan**	–B
	Subtracts a **non-defaulted** loan	–D
	Changes a **defaulted loan** to a **non-defaulted loan**	–N
the borrower has **other non-defaulted loan(s)** correctly included in the CDR calculation	Adds a **defaulted** loan	+N
	Adds a **non-defaulted** loan	No effect
	Subtracts a **non-defaulted** loan	No effect
	Subtracts a **defaulted** loan	–N
	Changes a **defaulted** loan to a **non-defaulted** loan	–N
the borrower has **other defaulted loan(s)** correctly included in the CDR calculation	Adds a **defaulted** loan	No effect
	Adds a **non-defaulted** loan	No effect
	Subtracts a **defaulted** loan	No effect
	Subtracts a **non-defaulted** loan	No effect
	Changes a **defaulted** loan to a **non-defaulted** loan	No effect

Key

Code	Description
CDR	Cohort Default Rate
N	Numerator
D	Denominator
B	Both Numerator and Denominator